



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 1/31/2003

GAIN Report #JA3701

Japan

Food Processing Ingredients Sector

Market Brief for Japanese Food Processing Sector

2003

Approved by:

**Daniel A. Martinez, Director, ATO Osaka
U.S. Consulate, Osaka-Kobe**

Report Highlights:

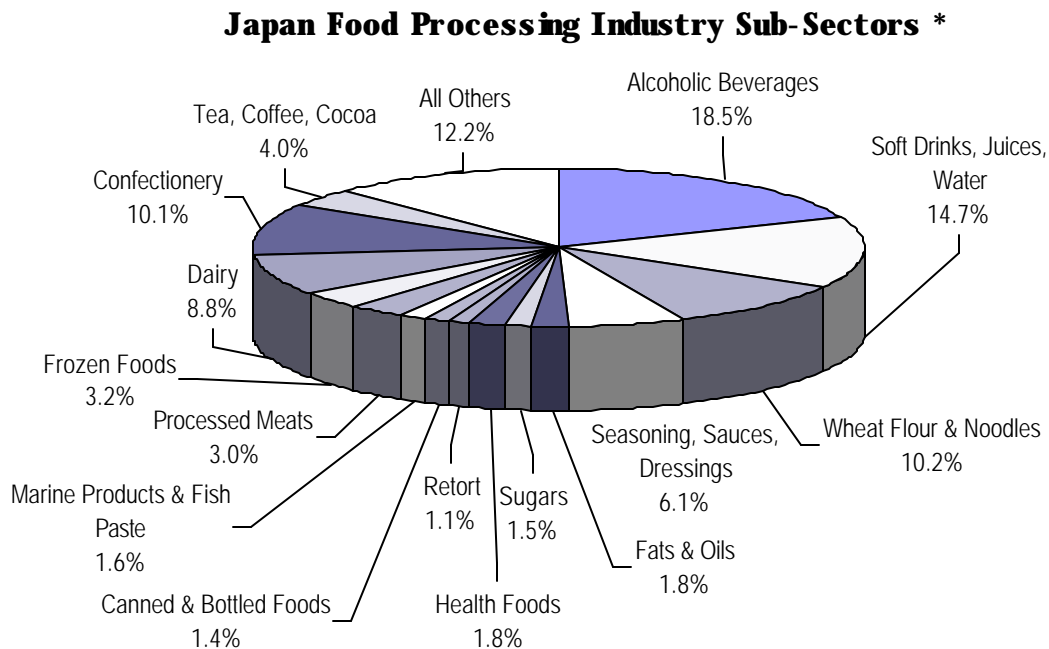
This report was prepared by the USDA's Foreign Agricultural Service for U.S. exporters of food and agricultural products. This information is in the public domain and may be reprinted without permission. Use of commercial or trade names does not imply approval nor constitute endorsement by USDA/FAS.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Osaka ATO [JA3], JA

| | |
|--|---------------------------|
| I. MARKET SUMMARY | <u>3</u> |
| II. ROAD MAP FOR MARKET ENTRY | <u>4</u> |
| A. ENTRY STRATEGY | <u>4</u> |
| B. MARKET STRUCTURE | <u>5</u> |
| C. COMPANY PROFILES | <u>6</u> |
| D. SECTOR TRENDS | <u>10</u> |
| III. COMPETITION | <u>12</u> |
| IV. BEST PRODUCT PROSPECTS | <u>14</u> |
| A. PRODUCTS PRESENT IN THE MARKET WHICH HAVE GOOD SALES POTENTIAL | <u>14</u> |
| B. PRODUCTS NOT PRESENT IN SIGNIFICANT QUANTITIES BUT WHICH HAVE GOOD SALES POTENTIAL | <u>16</u> |
| C. PRODUCTS NOT PRESENT BECAUSE THEY FACE SIGNIFICANT BARRIERS | <u>17</u> |
| V. POST CONTACT AND FURTHER INFORMATION | <u>18</u> |

I. MARKET SUMMARY

The Japanese food processing sector is a large but mature market. The value of the Japanese food processing industry, including beverages, was estimated at US\$196 billion (23.6 trillion yen, \$1=120 yen) in 2001 on an FOB plant basis. This has shown little change over the past five years.



* Value Basis - 2001

Source: Shurui Shokuhin Tokei Geppo, January 2002

It is estimated that there are 43,000 companies in the food processing industry, many quite small, employing 1.2 million workers in total.

Due to a lack of arable farmland and high production costs, Japan has historically been a major net importer of basic foodstuffs for use in further processing. The U.S., China, Australia, Canada and Thailand are the major agricultural exporters to Japan. The total value of exported agricultural food products in 2001 from the U.S. accounted \$11.1 billion.

Key market drivers for the food processing sector include:

- #Increasing importance of health and functional foods, especially as the Japanese population ages.

- #Deflationary economic environment, causing processors to seek out lower cost food inputs, especially imports, to remain competitive.

- #Heightened consumer concerns for food safety as a result of food scares over the past few years.

- #Continuing internationalization of the Japanese diet, and growing popularity of “ethnic foods” from outside Japan.

- #Increasing emphasis on convenience and ready-to-eat food.

- #Increasing number of Japanese food processors establishing production facilities outside Japan to take advantage of lower costs and to expand their global reach.

#Increasingly stringent government controls related to food safety issues.

| Advantages | Challenges |
|---|--|
| U.S. food products have a positive image for safety issues compared to many other Asian countries | Higher costs for U.S. exports due to the strong dollar and high labor costs relative to Asian producers are making products less competitive |
| The U.S. has a reputation and history as a reliable supplier of food inputs (availability and delivery) | Consumers perceive Japanese food production to be safer than imports, including the U.S. |
| The success of U.S. fast food chains help introduce American style inputs into the general diet | Tighter Japanese government regulatory enforcement is making it more difficult and riskier to export to Japan |

II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

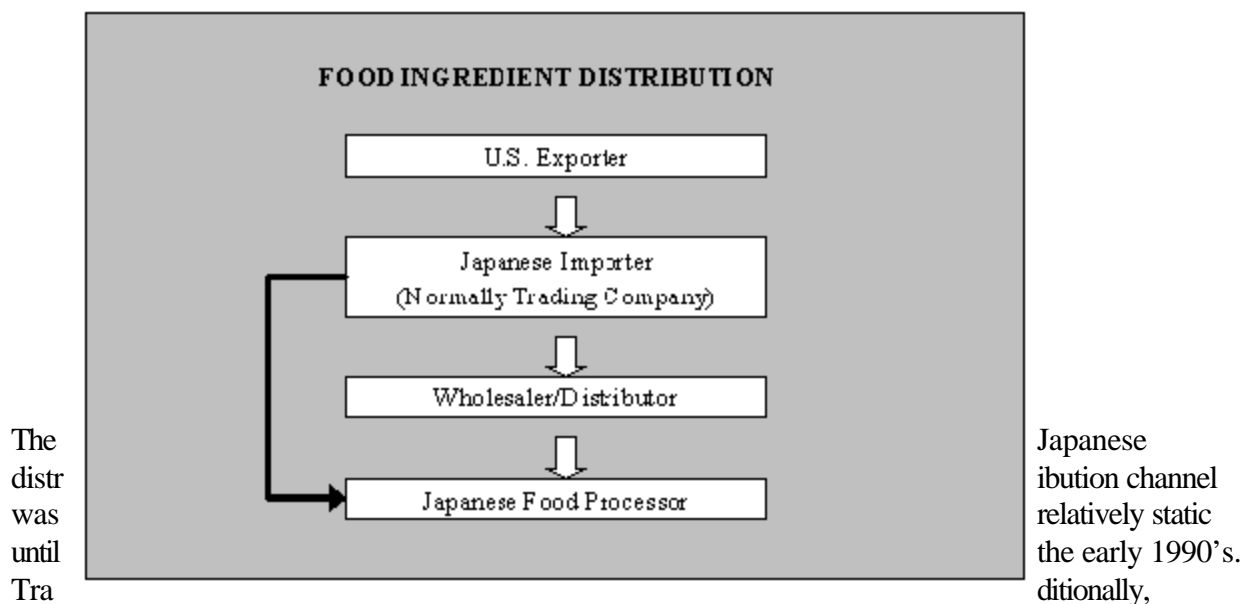
There is no magic formula for entering the Japanese market. Strategies will vary depending on the type of product and competitive environment. However the following steps are recommended for new-to-market exporters considering Japan for the first time.

1. Utilize the resources of groups such as U.S. market development cooperators (Cooperators), ATOs, and local State Departments of Agriculture for information and leads as a way to get started.
2. Visit Japan and explore first hand what the opportunities are.
3. Visit with Japanese importers that handle your category of products.
4. Talk with potential customers to determine what your sales potential is and how they normally source product.
5. Participate in food shows appropriate for your products. The ATO can provide a list of shows such as Foodex and the Food Ingredients Show.
6. Research food laws and regulations that apply to your product.
7. Meet with potential on-site representatives, including importers and food consulting companies.
8. Follow-up requests for samples and pricing quickly.
9. When appointing agents, be sure your partner has a good reputation and track record in the marketplace.
10. Make sure you are willing and able to make products that are appropriate for the Japanese market, including taste and packaging, at competitive prices.
11. Be aware that Japan is a very service oriented culture, and requires quick response to both product complaints and requests for information.

12. Be aware that many Japanese companies are looking for a long-term relationship rather than one-time purchase and consequently partners who are trustful, reliable and flexible.

B. MARKET STRUCTURE

Most imported food ingredients enter Japan through trading companies. Large trading companies generally have divisions specializing in specific food categories while smaller importers tend to specialize in a limited product line. The trading companies act as legal importers of the product and serve the function of clearing customs, warehousing the product, and financing the inventory. As a general rule products pass from trading companies to wholesalers/distributors. In recent years some large end-user customers have begun to import product directly, by-passing trading companies, but this is still the exception.



Japanese domestic food ingredient suppliers have used wholesalers and distributors to sell their products. Over the past few years, however, some suppliers have begun selling directly to end-user customers, by-passing local wholesalers, in order to save costs.

Food processors sell their products to a variety of sectors, including the Hotel, Restaurant, and Institution Foodservice market, the retail market and other industrial food processors. The Japanese food service market is large and well developed with annual estimated sales of \$240 billion (28.9 trillion yen). The retail market is composed of supermarkets, department stores, convenience stores and specialty shops and has annual sales of approximately \$470 billion (56.5 trillion yen) for foods, beverages and general merchandising products. Major food processors in Japan purchase food ingredients normally through trading companies giving product specifications they desire.

C. COMPANY PROFILES

Below is a table with a profile of the top twenty food processors in Japan. Information includes company's sales, the main end-use channels, production location, and procurement channels. In many cases the companies have branched out from their original core business into a variety of food lines. Only one of the top twenty is foreign owned, Nestlé Japan.

| TOP TWENTY FOOD PROCESSORS IN JAPAN | | | | |
|--|---------------------|-----------------|-------------------|--------------------|
| Company | Net Sales | End-User | Production | Procurement |
| (Main Product Types) | (\$ billion) | Channels | Location | Channels |
| Kirin Brewery Co. | \$13.01 | Retail, HRI | Japan (11) | Importers, |
| (Beer, Soft Drinks, Liquors, Functional Foods, etc.) | | (Dec. 2001) | USA | Direct |
| | | | China | |
| | | | Taiwan | |
| | | | Australia | |
| Suntory Ltd. | \$11.95 | Retail, HRI | Japan (18) | Importers, |
| (Liquor, Beer, Soft Drinks, Wine, etc.) | | (Dec. 2001) | USA (1) | Direct |
| | | | Mexico (1) | |
| | | | UK (1) | |
| | | | France (6) | |
| | | | Hungary (1) | |
| | | | Spain (1) | |
| | | | Germany (1) | |
| | | | China (4) | |
| | | | Singapore (1) | |
| | | | Taiwan (1) | |
| | | | Australia (1) | |
| | | | New Zealand (1) | |
| Asahi Breweries, Ltd. | \$11.94 | Retail, HRI | Japan (9) | Importers, |
| (Beer, Liquors, Wine, etc.) | | (Dec. 2001) | China (7) | Direct |
| | | | Bangkok (1) | |
| Nippon Meat Packers, Inc. | \$7.88 | Retail, HRI | Australia (5) | Importers, |
| (Beef, Pork, Chicken, Sausages, etc.) | | (Mar. 2002) | USA (3) | Direct |
| | | | Brazil (1) | |
| | | | Thailand (2) | |
| | | | Canada (1) | |
| | | | Korea (1) | |
| | | | Taiwan (1) | |
| Ajinomoto Co., Inc. | \$7.96 | Retail, HRI | Japan (4) | Importers, |
| (Seasonings, Oil, Processed Foods, Beverages, | | (Mar. 2002) | 49 plants in | Direct |
| Dairy Products, Fine Chemicals, etc.) | | | 22 countries | |

| Company | Net Sales | End-User | Production | Procurement |
|--|--------------|-------------|----------------------------|-------------|
| (Main Product Types) | (\$ billion) | Channels | Location | Channels |
| Yamazaki Baking Co., Ltd. | \$6.04 | Retail, HRI | Japan (27) | Importers, |
| (Breads, Japanese & Western Confectioneries, | | (Dec. 2001) | USA (7) | Direct |
| Cooked Rice Products, etc.) | | | China (1) | |
| | | | Thailand (2) | |
| | | | Taiwan (1) | |
| Meiji Dairies Corp. | \$6.20 | Retail, HRI | Japan (26) | Importers, |
| (Milk, Beverages, Ice Cream, Yogurt, Desserts, | | (Mar. 2002) | Thailand (3) | Direct |
| Dairy Products, Frozen Foods, Infant Formula, | | | UK (1) | |
| Baby Foods, Nutritious Foods, etc.) | | | Australia (1) | |
| | | | China (1) | |
| | | | Indonesia (1) | |
| Nichirei Corp. | \$4.65 | Retail, HRI | Japan (7) | Importers, |
| (Frozen Foods, Canned Foods, Retort Foods, | | (Dec. 2002) | USA (2) | Direct |
| Beverages, Health Foods, etc.) | | | Netherlands (4) | |
| | | | Australia (2) | |
| | | | Thailand (3) | |
| | | | Brazil (2) | |
| | | | China (2) | |
| Sapporo Breweries Ltd. | \$4.64 | Retail, HRI | Japan (10) | Importers, |
| (Beer, Liquors, Wine, etc.) | | (Dec. 2002) | China (1) | Direct |
| | | | Taiwan (1) | |
| Morinaga Milk Industry Co., Ltd. | \$4.40 | Retail, HRI | Japan (17) | Importers, |
| (Milk, Dairy Products, Ice Cream, Dessert, | | (Mar. 2002) | Germany (1) | Direct |
| etc.) | | | Belgium (1) | |
| | | | China (1) | |
| Nippon Suisan Kaisha, Ltd. | \$4.02 | Retail, HRI | Japan (10) | Importers, |
| (Frozen & Chilled Seafood, Seasoning, Chemicals, etc.) | | (Mar. 2002) | Affiliates in 18 Countries | Direct |
| Q.P. Corp. | \$3.31 | Retail, HRI | Japan (8) | Importers, |
| (Mayonnaise, Dressing, Sauce, Jam, etc.) | | (Nov. 2001) | USA (2) | Direct |
| | | | Netherlands (2) | |
| | | | China (1) | |
| | | | Taiwan (1) | |
| | | | Thailand (1) | |
| | | | Bangkok (1) | |
| Itoham Foods Inc. | \$3.88 | Retail, HRI | Japan (10) | Importers, |
| (Beef, Pork, Chicken, Sausages, Deli, etc.) | | (Mar. 2002) | China (1) | Direct |
| | | | New Zealand (1) | |

| Company | Net Sales | End-User | Production | Procurement |
|---|---------------------|-----------------|-------------------|--------------------|
| (Main Product Types) | (\$ billion) | Channels | Location | Channels |
| Nisshin Seifun Group | \$3.31 | Retail, HRI | Japan (13) | Importers, |
| (Flours, Frozen Foods, Pasta, Sauces, Health Foods, etc.) | | (Mar. 2002) | Thailand (4) | Direct |
| | | | USA (2) | |
| | | | Canada (1) | |
| Snow Brand Milk Products Co., Ltd. | \$3.01 | Retail, HRI | Japan (20) | Importers, |
| (Milk, Dairy Products, Ice Cream, Liquor, Baby Foods, etc.) | | (Mar. 2002) | USA (1) | Direct |
| | | | Australia (1) | |
| | | | Singapore (1) | |
| | | | China (2) | |
| | | | Thailand (1) | |
| Meiji Seika Kaisha, Ltd. | \$3.01 | Retail, HRI | Japan (8) | Importers, |
| (Confectionery, Functional Foods, etc.) | | (Mar. 2002) | USA (1) | Direct |
| | | | Singapore (1) | |
| | | | China (1) | |
| | | | Indonesia (1) | |
| Otsuka Pharmaceutical Co., Ltd. | \$2.80 | Retail, HRI | Japan (6) | Importers, |
| (Frozen Foods, Retort, Pharmaceuticals, etc.) | (2001) | | | Direct |
| Toyo Suisan Kaisha, Ltd. | \$2.71 | Retail, HRI | Japan (7) | Importers, |
| (Frozen Seafood, Instant Noodles, Fish Ham & Sausage, Seasonings, Soups, Retort Products, Canned Foods, etc.) | | (Mar. 2002) | USA (3) | Direct |
| | | | China (3) | |
| Nisshin Foods | \$2.57 | Retail, HRI | Japan (8) | Importers, |
| (Instant, Chilled & Frozen Noodles, Soups, etc.) | | (Mar. 2002) | Overseas (25) | Direct |
| Nestle Japan | \$2.44 | Retail, HRI | Global sourcing | Importers, |
| (Coffee, Creams, Frozen Foods, etc.) | | | | Direct |

Source: Market Makers Inc.

Top 20 Food Processors in Japan:

| Company | Address | Phone #/Fax # |
|------------------------------------|--|---------------------------------|
| Kirin Brewery Co. | 2-10-1, Shinkawa, Chuo-ku Tokyo 104-8288 | 03-5540-3411 F: 03-5540-3547 |
| Suntory Ltd. | 5-4-31, Minami-Aoyama, Minato-ku Tokyo 107-8616 | 03-3498-0331 F: 03-3498-1783 |
| Asahi Breweries, Ltd. | 1-23-1, Azumabashi, Sumida-ku Tokyo 130-8602 | 03-5608-5111 F: 03-5608-7121 |
| Nippon Meat Packers, Inc. | 3-6-14, Minami-Honmachi, Chuo-ku Osaka 541-0054 | 06-6282-3031 F: 06-6282-1056 |
| Ajinomoto Co., Inc. | 1-15-1, Kyobashi, Chuo-ku Tokyo 104-8315 | 03-5250-8111 F: 03-5250-8293 |
| Yamazaki Baking Co., Ltd. | 3-10-1, Iwamoto-cho, Chiyoda-ku Tokyo 101-0032 | 03-3864-3111 F: 03-3861-1280 |
| Meiji Dairies Corp. | 1-2-10, Shinsuna, Koto-ku Tokyo 136-8908 | 03-5653-0300 |
| Nichirei Corp. | 6-19-20, Tsukiji, Chuo-ku Tokyo 104-8402 | 03-3248-2112 F: 03-3248-2139 |
| Sapporo Breweries Ltd. | 4-20-1, Ebisu, Shibuya-ku Tokyo 150-8686 | 03-5423-2111 F: 03-5423-2050 |
| Morinaga Milk Industry Co., Ltd. | 5-33-1, Shiba, Minato-ku Tokyo 108-8384 | 03-3798-0111 F: 03-3798-0101 |
| Nippon Suisan Kaisha, Ltd. | 2-6-2, Otemachi, Chiyoda-ku Tokyo 100-0004 | 03-3244-7000 F: 03-3244-7287 |
| Q.P. Corp. | 1-4-13, Shibuya, Shibuya-ku Tokyo 150-0002 | 03-3486-3331 F: 03-3400-0660 |
| Itoham Foods Inc. | 4-27, Takahata-cho, Nishinomiya City Hyogo Pref. 663-8586 | 079-866-1231 F: 079-867-8672 |
| Nisshin Seifun Group | 1-25 Kanda-Kinshicho, Chiyoda-ku Tokyo 101-8441 | 03-5282-6666 |
| Snow Brand Milk Products Co., Ltd. | 13, Honshio-cho, Shinjuku-ku Tokyo 160-8575 | 03-3226-2111 F: 03-3226-2150 |
| Meiji Seika Kaisha, Ltd. | 2-4-16, Kyobashi, Chuo-ku Tokyo 104-8002 | 03-3272-6511 F: 03-3271-3528 |
| Otsuka Pharmaceutical Co., Ltd. | 3-2-27, Otedori, Chuo-ku Osaka 540-0021 | 06-6943-7722 |
| Toyo Suisan Kaisha, Ltd. | 3-50-11, Sendagaya, Shibuya-ku Tokyo 151-8507 | 03-3470-1691 F: 03-5412-7357 |
| Nisshin Foods | 4-1-1, Nishi-Nakajima, Yodogawa-ku Osaka 532-8524 | 06-6305-7711 F: 06-6305-7649 |
| Nestle Japan | 7-1-15, Gokodori, Chuo-ku Kobe City, Hyogo Pref. 651-0087 | 078-230-7000 F: 078-230-7100 |

Source: Market Makers Inc.

D. SECTOR TRENDS

Lacking an efficient agricultural sector, Japan has increasingly been a major net importer of basic foodstuffs for use in further processing. It is estimated by the Japanese Ministry of Agriculture, Forestry, and Fisheries that approximately 60% of Japanese food consumption on a caloric basis was supplied by imported foods in 2001. Relying on low cost imported food inputs, food processors have developed a multitude of items that are further processed in Japan for the general population.

Recently, however, in an effort to reduce costs, an increasing number of Japanese food processors have been going off-shore to source processed food items they have traditionally produced domestically. This has led to a “hollowing out” of some food industry sectors. For example, Nichirei, the largest frozen food company in Japan, now has joint venture operations in Thailand, China, Brazil, Australia, and the U.S. that are able to export products back to Japan. Ajinomoto, the second largest frozen food company, has 49 manufacturing plants in 22 countries. Nippon Ham, the largest meat processor in Japan, has joint ventures in Thailand, Australia and the U.S. that export processed meat and related products to Japan as well as sell locally. Even a traditional item such as bean paste is now manufactured in China specifically for export to Japan.

In general, foreign direct investment in the Japanese food processing market is minimal. Most U.S. brands that are produced in Japan are licensed or co-packed. Examples of this include Kraft cheeses (produced by Morinaga), Budweiser beer (produced by Kirin) and Tropicana (produced by Kirin).

At the consumer level, the following trends are driving the ways in which food processors are marketing their products.

1. Food Safety

Japanese consumers have been shocked by a series of food scandals and health scares during the past several years, including deaths related to E Coli O-157, mass sickness from tainted dairy products, BSE found in Japanese cows and most recently mis-labeling of meat and marine products. Consumer concerns about GMOs have also surfaced, and all retail products containing GMO materials are now required by law to be labeled as containing GMO ingredients on the package.

Numerous food recalls have taken place for even minor incidents of foreign materials in products. As a result, food processors are demanding that suppliers follow stricter quality assurance (QA) procedures, including HACCP systems, and are even asking for traceability to the point of origin of the product. This means an increased amount of work for suppliers but also presents opportunities for those who can guarantee the required quality.

2. Health

Functional foods designed to treat or help specific bodily functions are becoming increasingly popular. Examples include yogurt with lactic bacteria to help digestion and breads with added wheat germ. Blueberries have become popular as ingredients after being touted as an aid to eyesight, and have appeared in numerous new products such as gum, yogurt, bagels and cookies.

Polyphenol, which gained popularity as an aid to reduce cholesterol build-up as well as with its anti-oxident properties, has become popular not only in red wine but also chocolates, dried fruits, etc.

Consumers have been switching from sugar, soft drinks, cakes and ice creams to low calorie teas, mineral water, and other lower calorie-containing items.

The official definition of functional foods and drinks in Japan is “foods which are expected to have a specified effect on health due to the relevant constituents or foods from which allergens have been removed.” In practice the products which are considered to be functional foods are products containing functional ingredients such as dietary fiber, oligosaccharides, non-cariogenic sweeteners, calcium, iron, mineral absorption promoters, beta-carotene, PUFA (DHA and EPA), chitosan, specified soy protein, collagen, polyphenols, lactic acid bacteria cultures, soy iso-flavones and germinated brown rice (GABA).

Organic foods and those marketed as all natural are also gaining popularity. This includes processed items as well as fresh vegetables.

3. Diversification of the Diet

The trend toward diversification of the Japanese diet continues to grow. Every year new "hit" food items based on foreign products make their mark on the diet in Japan. Examples over the past half decade include pasta, pizza, olive oil, tiramisu, nata de coco, cinnamon buns, Belgian waffles, and scones. More importantly, the trend toward internationalization of the diet is clearly reflected in the growing presence of restaurants in Japan featuring ethnic food. From the U.S., names such as McDonald's and KFC have long made their mark on the diet culture. The “internationalization” of the Japanese diet offers U.S. exporters an opportunity to supply ingredients to meet this increasing demand.

4. Low Cost

Twelve years ago at the height of the economic bubble in Japan, consumers were spending freely on luxurious food items. Since then, the recessionary environment has caused consumers to revert to lower cost food products to save money. The successful companies have grown by offering low priced items, whether it be McDonald's value set or Yoshinoya's 280 yen beef bowl set. This has led to business opportunities for U.S. exporters who can provide lower cost inputs for food processors and end-users who are trying to reduce costs.

5. Growth of Convenience Foods

The increasingly hectic pace of Japanese lifestyle has led to the growth of processed foods as a replacement for meals made from scratch at the home. The best example of this is the rapid expansion of convenience stores over the past decade, which specialize in a large variety of pre-

prepared meals, including not only traditional bento lunch boxes and onigiri (rice ball), but pasta dishes, sandwiches, salads, baked goods, and desserts as well. There are now over 42,000 convenience stores in Japan or one for every 2,800 Japanese citizens. Due to the increasing consumers' food safety and health consciousness, the demands on Japanese food processors to use natural additives and preservatives for those products in convenience stores has likewise increased.

III. COMPETITION

The U.S. is the largest supplier of agricultural products to Japan, with a market share of 34%. Total U.S. agricultural exports to Japan in 2001 were worth approximately \$11.1 billion.

Other major suppliers in order of size are China (12.9%), Australia (9.0%), Canada (7.0%) and Thailand (5.2%).

A brief review by major product category follows. The source of the information is from Japanese Import Statistics and the U.S. Embassy in Tokyo.

1. Red Meats and Poultry Meat Products

The U.S. is the largest supplier of red meats, exporting a total of \$3.2 billion in 2001 with a market share of 46.9%, followed by Australia with a 16% share. For poultry products, the U.S. is the third largest exporter with a share of 13% after China (41%) and Thailand (29%).

2. Fish and Seafood Products

The U.S. is the second largest supplier of edible fish and seafood after China. The value of U.S. edible seafood exports to Japan was \$1.4 billion in 2001, composed mainly of roe and urchin egg (\$570 million), surimi (\$237 million), Salmon (\$127 million), and crab (\$70 million).

3. Dairy Products

The U.S. exported \$217 million worth of dairy products in 2001, after Australia (\$286 million), and New Zealand (\$248 million). The U.S. share has increased from 12% to 14% during the past two years.

4. Frozen Foods

The U.S. is the leading exporter of frozen vegetables to Japan, with a 33% share. Frozen vegetable exports (potatoes, corn, beans and peas, broccoli, and mixed vegetables) to Japan from the U.S. were valued at \$284 million in 2001.

5. Health Related

The U.S. is the dominant supplier of food supplements to Japan. In 2001, the U.S. exported \$59.6 million worth of food supplements to Japan, with a 98% market share.

6. Confectionery Products

The U.S. was the leader in cookie and biscuit exports to Japan in 2001 with a share of 21% valued at \$8.4 million.

For chocolate and chocolate-based confections, the U.S. had the second largest share among exporters with 14%, valued at \$42.8 million in 2001.

7. Bakery Products

The U.S. is the leading exporter of bread, pastry, and other baking items to Japan with a 20% market share among exporters in 2001, valued at \$31.9 million. The U.S. is also the leading exporter of mixes and dough for the preparation of bakery products with a 43% share, valued at \$27.2 million in 2001, followed by Singapore with a 15% share.

8. Snack Foods/Tree Nuts

The U.S. is the largest exporter of snack foods with a market share of 35.6%, valued at \$2.0 billion in 2001. Among tree nuts, the U.S. is the second largest exporter after China, exporting \$128 million worth of tree nuts in 2001 (primarily almonds and walnuts) with a share of 46%.

9. Beverages

The U.S. is the largest exporter of fruit and vegetable juice, with sales valued at \$406 million in 2001 and a market share of 37%. Brazil is second with a share of 10%.

For wine and beer, the U.S. had sales of \$87 million in 2001. The leading exporters were France (53% share), followed by Italy (12% share), and then the U.S. (10%).

For ethyl alcohol based beverages that have an alcoholic strength less than 80% (spirits, liqueurs and the like), the U.S. was the third largest exporter in 2001, with sales of \$87.4 million and a share of 11%.

10. Dry Goods and Condiments

The U.S. is a major exporter of dry goods and condiments to Japan. For the category of sauces, mixed condiments, and seasonings, the U.S. exported \$30.6 million worth of products in 2001, and had the largest market share among exporting nations of 22%, followed by Thailand with 16.5%.

The U.S. was the largest exporter of soups and broths to Japan in 2001, with a market share of 45%, valued at \$14.0 million. The U.S. was the dominant exporter of tomato ketchup, with an 82% share worth \$4.2 million in 2001.

Among pasta products (including spaghetti, macaroni, noodles, lasagna, and ravioli) the U.S. was the fourth largest exporter in 2001 after Italy, China and Thailand, with a share of 8%, valued at \$15.7 million.

11. Specialized Food Ingredients

The U.S. is the leading exporter to Japan of vegetable protein substances used as binders and extenders in frozen foods, bread, meat products and seafood products such as kamaboko. U.S. sales were worth \$10.2 million in 2001, with a share of 74%.

IV. BEST PRODUCT PROSPECTS

Based on current macro-trends, the following food products and ingredients have the potential to do well in the future. For many of these no published figures for market size are available.

A. PRODUCTS PRESENT IN THE MARKET WHICH HAVE GOOD SALES POTENTIAL

1. Health and Functional Foods

The market for health related and functional foods is expected to continue to expand in the future. Ingredients which should benefit include dietary fiber, oligosaccharides, non-cariogenic sweeteners, calcium, iron, mineral absorption promoters, beta-carotene, PUFA (DHA and EPA), chitosan, specified soy protein, collagen, polyphenols, lactic acid bacteria cultures, and soy iso-flavones. The Japan Health Food and Nutrition Food Association released figures for sales of FOSHU (Foods For Specified Health Use) items that showed the market for the finished products grew to \$3.4 billion (412 billion yen) in 2001 from \$1.9 billion (227 billion yen) in 1999, as follows:

| Type | Sales of FOSHU Items (2001) | |
|--|-----------------------------|-----------|
| | Billion Yen | \$000 |
| Lactic Acid Bacteria | 317.1 | 2,594,700 |
| Dental Caries Related | 18.7 | 153,000 |
| Blood Sugar Related | 18.4 | 150,600 |
| Lipid Metabolism | 15.2 | 124,400 |
| Dietary Fiber | 12.8 | 104,700 |
| Minerals | 11.4 | 93,300 |
| Blood Pressure Related | 10.0 | 81,800 |
| Oligosaccharides | 5.6 | 45,800 |
| Cholesterol Related | 2.8 | 22,900 |
| Total: | 412.0 | 3,371,200 |
| Source: Japan Health Food and Nutritional Food Association | | |

Other health related food ingredients becoming more popular include: Collagen (for joints and

skin), vitamin C, nutritional supplements such as chondroitin and pycogenol, aloe, noni, and prune extract. Food supplements with vitamins should also continue to grow in the future.

The U.S. is or can be a major supplier of many of these items.

2. Organic Foods

While still a niche market, the demand for organic products is steadily increasing. As a result of the recent establishment of national organic standards in the U.S. by USDA and agreement with Japan on certification procedures for organic products exported to Japan (See www.ams.usda.gov/nop/NOP/TradeIssues/Japan.html), the opportunity for organic products will expand in the future. Organic soybeans, frozen vegetables & fruits, juice concentration are examples of popular organic ingredients. Competition for the organic market will come from Australia and New Zealand among others.

3. Dietary Products

The use of sweeteners such as xylitol and sorbitol has surged since 1997 when these items were approved for use in products such as chewing gum. The market for sugarless gum rose from \$167 million (20 billion yen) in 1996 to \$492 million (59 billion yen) in 2001. Warner Lambert introduced Recaldent chewing gum in 2000 which contained not only xylitol, but also casein phospho-peptide (CPP) and amorphous calcium phosphate (ACP) to increase calcium in teeth. Sales of this brand of gum were over \$42 million (5 billion yen) last year.

4. Beverage

Flavored teas, coffees, juices and related waters are becoming more popular in Japan. For example Coca Cola launched a new line of flavored fruit drinks in 2000 called QOO. The beverages feature four varieties of fruit juices (20% levels): orange, apple, white grape, and peach, which are fortified with calcium and vitamin C. Sales were \$308 million (37 billion yen) in its first year.

Wine is also expected to continue to grow in the future as less hard liquor is consumed. California and other West Coast wines can participate in this growth with good marketing. However, the market is fairly saturated as many other producing countries including France, Italy, Chile and Australia have been expanding their penetration in the marketplace.

5. Ethnic Foods

The popularity of ethnic foods is expected to continue to grow and with it the market for ingredients. Tex-Mex products such as tortillas and salsa are one example. One major U.S. fried chicken fast food chain has sold over 100 million tortillas imported from the U.S. since it launched a burrito-like item two years ago. Wrap sandwiches featuring flavored tortillas are also beginning to appear in the marketplace. Asian cuisines including Vietnamese, Thai, and Korean Foods are also popular. Japanese food manufacturers have developed, for example, special condiments for Korean spicy dishes for use in both home cooking and food service. Also, many Italian food items such as spaghetti sauce, olive oil, and pasta have become regular items even for home cooking and consequently, Japanese food manufactures have developed a variety of ready-

to-use spaghetti sauces in recent years. Pizza chains such as Pizza Hut and Domino's have been successful in expanding the market for pizza. The U.S. is a major supplier of meat toppings as well as tomato based pastes and crust.

6. Frozen Foods and Convenience Foods

Frozen foods are growing in usage. Dough products in particular have done well in recent years. For example, the launch of Cinnabon two years ago in Japan sparked a surge in the sales of cinnamon buns in Japan. U.S. suppliers provided not only the raw ingredients but also finished dough for many customers. Bagels are also becoming more well known in Japan. More recently, scones have increased in popularity after being introduced by Starbucks and are now on the menu of other fast food giants such as McDonald's. Frozen dough food exports to Japan increased from 46,000 MT in 1994 to 77,000 MT in 2001 and continue to represent a potential growth area for the future.

7. Other

Other items with potential for increased sales include the following products:

Processed meats such as pre-cooked bacon and sausages that are microwavable have the potential for growth with foodservice groups such as hotels. Turkey is also a product traditionally unfamiliar to Japan, has made inroads by its introduction by companies such as Subway Japan. Smoked turkey legs are also a very popular item in Tokyo Disney and is getting widespread exposure as a result. Likewise, the expansion of western style coffee shops (e.g. Starbucks, Seattles Best, Tullys, etc.) has presented opportunities for deli meats, cheese, soup and pastries.

The U.S. is a major supplier of bulk commodities such as wheat and soybeans and should remain so in the Japanese food processing sector.

Other products including frozen potato, chilled pork, dried fruits and nuts, surimi, and roe and urchin have also been successful.

B. PRODUCTS NOT PRESENT IN SIGNIFICANT QUANTITIES BUT WHICH HAVE GOOD SALES POTENTIAL

1. Substitutes for Beef Flavorings and Gelatins

Because of the BSE problem in Japan last year, many Japanese food processors using beef as a base for flavorings or in gelatin form have been seeking substitutes. Types of products using beef flavorings in Japan include snack items such as potato chips, and seasonings for broths and soups. Substitutes include chicken, pork, and fish based products.

2. Functional Foods for the Elderly

Functional foods that can help afflictions of the elderly are likely to experience significant growth in the future. The aging of the Japanese population will create a much larger market for food products for this segment. In 2002 an association for Foods for the Elderly was formed by 39 companies including Meiji Milk, QP, Itoham, Nichirei, Nichiro and others. The main emphasis is on developing soft, easily chewable foods as a first step, including fish, egg and meat products, carrot and apple based foods. The association estimates the market will expand to \$166 million (20 billion yen) by 2005 from \$50 million (6 billion yen) currently.

3. Nuts

Unlike almonds and walnuts, pecans have not established a market in Japan. However, with proper marketing and promotion, they could be successful ingredients for items such as confections, cakes, ice cream and the like.

C. PRODUCTS NOT PRESENT BECAUSE THEY FACE SIGNIFICANT BARRIERS

1. Items containing prohibited ingredients or excess amount of allowable limits

Because of the strict Japanese regulations on food additives, some U.S. food products containing prohibited additives or excess amount of allowable limits cannot enter Japan. It is highly recommended that U.S. exporters check their product compliance as a first step when considering business in Japan.

2. High Tariff Rate Products/Quota restricted items

A variety of dairy products including milk, butter, and yogurt face high tariff rates, which makes imported products uncompetitive with domestic products. Likewise, sugar, and rice face very high tariff rates. It is wise to check the tariff rates as well as quota restrictions for your classification of product. Quotas still exist on some items such as dry beans.

3. Quarantine restricted items

Numerous fresh produce products are prevented from entering Japan due to the Japanese plant quarantine regulations. For example, fresh potatoes are prohibited to import. The list for prohibited produce items can be obtained from APHIS, Tokyo as well as through ATO offices in Japan.

V. POST CONTACT AND FURTHER INFORMATION

For those with questions or seeking additional assistance, please contact the U.S. Agricultural Trade office (ATO) in Osaka or Tokyo or Agricultural Affairs office at the following address:

| | |
|--------------------------------|--|
| ATO Osaka | American Consulate General |
| | 2-11-5, Nishi Tenma, Kita-ku, Osaka City, Osaka 530-0047 |
| | Tel: 81-6-6315-5916 Fax: 81-6-6315-5906 |
| ATO Tokyo | Toshin Tameike Bldg. 8F. |
| | 1-1-14, Akasaka, Minato-ku, Tokyo 107-0052 |
| | Tel: 81-3-3505-6050 Fax: 81-3-3582-6429 |
| Agricultural Affairs, Tokyo | American Embassy, Tokyo |
| | 1-10-5, Akasaka, Minato-ku, Tokyo 107-8420 |
| | Tel: 81-3-3224-5106 Fax: 81-3-3589-0793 |

FAS offices in Japan also issue periodic reports on the Japanese food industry and specific product categories. Importer lists are also available. For additional information, please visit the ATO Japan home page at <http://www.atojapan.org/market.html>.

Note: It is highly recommended that U.S. exporters verify relevant import requirements with their foreign customers, who normally have the most updated information on local requirements, prior to exportation. FINAL IMPORT APPROVAL OF ANY PRODUCT IS SUBJECT TO THE IMPORTING COUNTRY'S RULES AND REGULATIONS AS INTERPRETED BY BORDER OFFICIALS AT THE TIME OF PRODUCT ENTRY.